

FREE TRADE, PROTECTION,

AND

RECIPROCITY.

FROM

"THE CANALS OF CANADA,"

BY

THOS. C. KEEFER, C. E.



Ottawa :

PRINTED BY A. S. WOODBURN, ELGIN STREET

1876.

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INTRODUCTION.

The pamphlet from which these extracts are re-printed was the successful competitor for a prize offered by the late Lord Elgin, in 1849, for the best essay upon "the influence of our Canals on the interests of Canada as an agricultural country." Then, as now, there was depression and a demand for Protection, and Reciprocity. The writer advocated a Canadian Commercial Policy because our position was neither that of Great Britain nor that of the United States. When England produced more machinery than food, free trade became a necessity to her. The war of Independence, and of 1812, taught the United States the necessity of being self-contained in respect to all necessary manufactures, and led to an imitation of England's protective policy, which has since been carried to an absurd extent. The collapse of the Southern Confederacy was inevitable from their dependence for necessary supplies upon Blockade-runners.

In the quarter of a century which has elapsed since Lord Elgin's time, Canada has made substantial progress in nearly all the branches of necessary manufactures. In materials for Food, for Clothing, and for Shelter, we are independent of the World; but we cannot produce, or prepare these articles for use, without another of which we possess the raw material in abundance and of the finest quality, but which we export as Ore, and import as Pig Iron. We do not export wheat, wool and sawlogs, in order to obtain our flour, cloth and boards, but we do export our

iron ores and import pig iron, and that under disadvantageous circumstances.

The Hon. the Minister of Finance, in his Budget speech, quoted an article from the *Chicago Tribune* in which was the following: "The Dominion is almost destitute of those great and *essential* elements of strength and development, Coal and Iron." We are not so destitute of coal, and what we have is much better placed, in one important aspect, than any in the United States. When the Canadian Pacific Railway is completed we can coal ocean steamships, running in connection with it, at both termini,—on the Atlantic and on the Pacific—from seaboard Canadian mines, and this cannot be said of any American trans-continental route.

Ontario and Quebec *are* destitute of Coal, but, for motive power, have a very good substitute in their numerous waterfalls; and there is wood and peat enough to render them, in an emergency, independent of Blockade runners. Neither are they destitute of Iron, but, for all practical purposes, they might as well be; and in this respect the charge of the Chicago writer is too true.

If iron is an essential element of strength then are we weak indeed, because for nearly half the year our sea-going trade is suspended by frost, and during that time we must either pay excessive transportation, or "protected prices" in the United States, or wait—for any special sizes, or extra quantities which the stocks in hand may be unable to supply.

The material strength of England, to-day, is centred in

her iron ; and, in this age of iron, Canada cannot too soon lay the foundations of an industry without which it will be impossible for her to maintain her position as an independent power on this continent.

The completion of the railway from Quebec to Lake Huron, with its branches in Ontario,—the connection, by an interior route, of that seaboard arsenal with the granaries of the Dominion,—will, for the first time since the railway era, render it possible for us to become independent of sudden raids, to successfully resist southern invasion,—or for England to contend for supremacy upon the Upper Lakes. Our flanks cannot be turned, or our rear assailed, and, with a railway base line of operations removed from the frontier, and connecting the lakes with the seaboard, we should be able, so long as Britannia rules the waves, to hold this Canada of ours against all comers. But we cannot do so without arsenals in the interior, and national arsenals should be based upon native iron.

For the peaceful arts—the substitution of our own for the imported article would increase our powers of commercial competition on our inland waters, and would not permanently increase the total cost to the country—because, from its superior strength, a less weight would perform the same office—a very important consideration in agricultural machinery.

Pig Iron is a manufactured article and naturally belongs to the 17½ per cent. list. Its transfer to that from the free list would not violate any principle, for ours is

a revenue tariff, and this would give revenue. If the immediate effect be to enhance the cost to the consumer, no class is better able to contribute to the revenue than the consumers of iron. If the additional revenue is not needed, an equivalent reduction can be made on silks or sugars, or something which we do not produce. An increase of a fraction of a cent per lb. in the cost of iron, even if it becomes permanent, would not be felt by the farmer, and should not stand in the way of national independence in a "great and essential element of strength and development" as the iron interest is correctly characterized by the *Chicago Tribune*.

What manufactures we have are mainly the offspring of our tariff; and because, in the adjustment of that, we have treated pig iron as a raw material, we have many cupolas and few blast furnaces. The large amount of capital necessary to bring about iron smelting will not be forthcoming until the blast furnace is put upon the same footing as the cupola.

OTTAWA, *March 23rd*, 1876.



EXTRACTS

—FROM—

“CANALS OF CANADA.”

As the nature of our commercial relations with the United States exerted an important influence on the trade of the St. Lawrence, we will glance at its progress and fluctuations, and our Colonial legislation thereon. Our regular trade with the United States originated in the treaty signed at London in 1794: and in 1801 a uniform tariff was necessarily adopted by our two legislatures. This trade was confined to the natural productions of the United States—the “Possessions” and “Trade” Acts for a long time prohibiting tea, and many other articles, by importation inland. To encourage exports of United States products through the St. Lawrence, free importation of these articles was permitted, without any regulations or restrictions, until the Canada Trade Act of the Imperial Parliament, in 1822, imposed duties thereon. In 1820, however, Upper Canada imprudently placed a high protective duty on United States products, except for exportation, and a very onerous tonnage duty of one shilling on American vessels, at the same time relieving British vessels of a light-house tonnage duty of only threepence. This latter imposition was removed by the Imperial Government in 1825, when tonnage duties were made reciprocal; and in the same year, inland importation was permitted of all goods which might be imported by sea from foreign countries—that is of the “enumerated” articles. After free importation of the produce of the forest and bread-stuffs was again permitted in 1831, the local legislatures, taught by experience, did not again place any checks upon the St. Lawrence trade until after the Union,—when the Imperial Act of 1842 imposed a duty on United States produce, which we imitated in the next year “for the pro-

tection of agriculture,"—flour and wheat excepted; and both in the tariffs of 1847 and 1849 this principal is adopted, and we have now imposed a duty of about twenty per cent upon United States agricultural products,—wheat and corn only excepted.

AGRICULTURAL PROTECTION.

✓ This agricultural protection in Canada is, we fear, a dangerous error. The object of protection is to encourage the production of any article of which we have a deficient supply. Coals do not require protection in Newcastle, or cod in Newfoundland. If protection would raise the price of our flour in British or foreign markets, then would it be most desirable, but inasmuch as it will surely raise the cost of transport of our own produce to those markets,—by driving American exports from the St. Lawrence,—it will, by just so much, reduce its value *here*. We produce a great deal more breadstuffs than we consume; this surplus thrown upon our market establishes the price of all that is consumed, and no amount of protection can vary this unless a demand for export arises, under which there will be no importation, and no need of protection. If we have a famine in Canada,—the only case in which protection could take effect,—as the agriculturists form four-fifths of the population, it is not to be supposed that they would be exempt from the visitation; or that custom regulations, under such circumstances, could (with our frontier) be efficient. We have no desire to view the question upon "general principles," but as a local one. In all human probability, for the average of many years to come, we shall have a large amount of breadstuffs for sale, and the question is, where and how can we sell it to the best advantage? The St. Lawrence offers us access to the markets of the world since our canals have been constructed; but, from the lingering effect of commercial maltreatment, the superior facilities of wealthier and better supported routes,

and some disadvantages on the score of winter shipments, our own limited commerce is insufficient to keep open this mighty highway. The regular trader, which arrives at Montreal, brings the property of many shippers, who, by combining together, get their goods brought out at a much less expense than if only part of a cargo could be found; the more of these ships which arrive, the greater competition will there be in the carriage of our surplus produce to its markets;—and the greater the amount of produce the larger will be the number of arrivals, as the ships will be more certain of a return cargo. With the increase of shipping, additional light-houses, tug-boats, and buoys will follow, and thus insurances will be reduced, delays diminished, and greater safety ensured. The larger the trade, the greater will be the employment of a steam power, in which feature the St. Lawrence must distance all her rivals. It is evident that this great highway cannot be “kept in repair” by our trade alone. It was never designed by nature for this selfish end; our canals were not built for Canada, but for the *valley of the St. Lawrence*; we ought therefore to “club together” with our neighbours, on the opposite side in order to place this noble outlet in the most efficient state, by giving it as large a support as possible. Free admission of American produce for exportation only, will not attract it from a route where no custom house nuisances, and no *delay* on this score exist. An exclusive policy will certainly recoil upon ourselves, for we are too poor in capital to purchase a tithe of what is needed to “stock” the St. Lawrence, and controul the business of the North and West.

Our agriculture has long since outgrown protection—it is a dominant, instead of a subordinate interest; yet by an apparent contradiction, in becoming so, it has become dependent upon another interest yet in its infancy—that of our commerce,—the destiny of which is in the hands of our agriculturists. The “home” price and the export demand are to be established by our canals and our shipping;

and it remains for those most interested in that price and that demand, to say whether the efficiency of their recently improved and only national highway, is to be impaired by hampering any of its furniture.

Whilst we were a colony in the commercial sense, the superior value of our flour and the demand for all our surplus in the British market, kept up the price for home consumption here at the highest point. There were, therefore, many occasions in which the free importation of American produce might have reduced our prices, if there had not been the English demand for more than all imported; yet we have seen, that, as a people, we have flourished most from that policy under which the least restrictions between the commerce of the two sides of the St. Lawrence were interposed. American produce, for years to come, will not again seek Canada, unless *en route* for some better market, and a high future price of breadstuffs in this country, will be the result only of scarcity; or of our connection with other and more eastern markets.

As our present position is a peculiar and critical one—struggling, with great natural facilities, against a powerful rival—‘general principles,’ or theories, should be avoided; *general* protection, therefore, however desirable it might become, when the commerce of the St. Lawrence is established, and our complete independence of the New York canals achieved,—would now produce general prostration. The building up of a home market must be the work of years, and during its infancy abundance and cheapness of food will be indispensable. Our own market is too limited to indulge the expectation that any protective inducements we could offer, would soon bring about any considerable immigration of operatives and consumers; and protection, without this result, would only have the effect of reducing our production, or of maintaining us in the position of tribute-payers to the Erie Canal. General protection must include our marine, and it would, incidentally, so affect

foreign goods *in transitu*, as to perpetuate the present aversion to the St. Lawrence route. Let not our farmers therefore be inveigled into any "general" system, to which they, forming four-fifths of the body politic, are sure to become the victims.

We have advocated a free commercial system with regards to our exports and intercourse with the opposite bank of the St. Lawrence, upon special grounds, and not from any sympathy with those extreme principles of some commercial philosophers,—that commercial *communism* which would tax civilization for the support of barbarism—which would draw no distinction between the bondmen and the free, and drive our sons and our daughters to seek employment in Iowa, Oregon and California.

Fortunately, "free trade" and "protection" have not yet become war-cries in Canada, and we trust that patriotism, and the mutual respect of parties, will dictate that spirit of compromise which is the haven of all good government.

We believe there is a freedom of commercial intercourse which need not be unlicensed, and an encouragement of native industry, *when judiciously directed*, not incompatible with each other, or with the "interests of Canada, as an agricultural country."

Whatever disinterested advice we may receive from the philosophers of the Manchester school, we cannot fail to perceive that we are already a surplus *food*-producing people, that our most easily cultivated lands are taken up—that the want of a local market and superabundant capital forbids the cultivation of the richer and more expensively tilled soils—that our most valuable population, the native-born adults of both sexes, are wandering off where good land is more plenty and cheaper, or hard labour better rewarded. By industry and thrift we may recover from the effects of temporary calamities, but when the young and

vigorous, the enterprising, intelligent, and *initiated* portion of our population abandon the country they have been reared in, and which they are the best qualified to develop, she is indeed bereaved. Any policy, therefore, which offers a reasonable prospect of extending the variety of our occupations, should be received upon its own merits, without reference to its clashing with a "principle;"—but the utmost caution is required to prevent our defeating the object we have in view.

MANUFACTURING AND HOME MARKET.

If we had commenced a system of general protection *before* we become exporters of food, then might we have been now our own manufacturers, although we should have paid dearly for our patriotism; because, with a limited market and imperfect commercial facilities, we would have been badly supplied at extortionate rates. But as colonists, we could not become general manufacturers, nor as Canadians can we now become so, until we have greater commercial facilities,—railroads, and an efficient foreign and coasting marine, either of our own, or at our disposal. Manufactures cannot be profitably carried on upon a small scale; neither can the supply be so closely assimilated to the demand in any community, but that large accumulations will periodically occur, for which a safety-valve must be provided, in the shape of a foreign market. Therefore, if the commerce of the St. Lawrence is placed upon such a footing that we can contest, with the Americans, the supply with breadstuffs of the Gulf Provinces, the West Indies and South America, we may, *hereafter*, fill out our cargoes with manufactures from the St. Lawrence for the same destination. Then would our returning vessels bring back the drugs, dyes, and chemicals required by the manufacturer, the raw hides from the Pampas, and the rare woods of the tropics; and thus place us in a position to engage in these undertakings with similar facilities to those enjoy-

ed by England and the United States. But it may be said that we can never compete with these nations: because in the first labour is cheaper—and in the second, it is “protected.” We would first observe that, although nothing could be more fatal to us than the present adoption of what is understood by a *general* protective policy—yet, for those peculiar articles, in the manufacture of which we could now profitably engage, it may become advisable to make such provision, as in the event of any of those revulsions which periodically overtake the commerce of every country, would prevent the annihilation of our growing manufactures. No excessive or prohibitory tariff, for the purpose of protection, could be of any avail upon a frontier like our own. A *moderate and therefore permanent, encouragement*—for those manufactures only which require little manual labour, and of which we produce the raw material,—is all that could be attempted and would tend most to the manufacturers’ true interest; because high tariffs produce ruinous local competition, and invite attacks which are sure to be made, and a crisis must then ensue. In England, when a manufacturing crisis occurs, the accumulated stocks are forced out suddenly upon the markets of the world, and in such quantities, that in young and weak systems of new countries like this, the ruin of incipient manufactures would be inevitable. This might not be alone confined to the *chances* of trade,—for a deliberate policy would see, that a certain loss, occasionally submitted to by a combination of manufacturers, would be profitably incurred, if thereby our market were continued at their mercy. Accordingly, after opposition has been thus nipped in the bud, upon returning prosperity, and a full demand, such prices would be dictated, to all dependent consumers, as would more than compensate for the loss by the former clever investment. This is no fictitious case. We have seen iron range from £4 10s. to £16, between 1842 and 1845, and English goods have been flooded, at prices below cost, up-

on the American markets, thereby checking the extension of manufactures in that country. That there are certain classes of manufactures, which we can profitably carry on, notwithstanding all that has been said about the superior cheapness of transatlantic labour, must be admitted, on looking at the many excellent cloth mills, tanneries, furnaces and foundries, the asheries, breweries and distilleries, soap, nail, chair, and pail factories, oil and paper mills, potteries, machine shops, and many other establishments, which have sprung up without any other encouragement than those most important ones, which we offer to every branch of manufacture, viz: abundance of cheap food and water power, a local market, low rents, and a healthy and invigorating climate. And there are many more which we could have at once, were we in possession of the requisite enterprise, such as rope walks, wire works, copper manufactures, white lead and paint works, and an extension of our oil mills, candle factories, &c., and more particularly all manufactures of wood,—cabinet ware and turners' work,—and lastly, *ice*. The quality of our iron and the cheapness of carcoal offer every facility for the manufacture of *steel*. These manufactures flourish here because we produce the raw material, and because the expense of transportation and the opportunity for barter are in themselves a protection and an advantage over foreign supplies. Iron we could advantageously produce; our ores are of the finest description, and as we must now use charcoal, the quality would be equal to Swedes'; the inferior though cheaper English article would not come into competition with it, because, in iron the better article is generally the cheaper.

Cotton we could procure either from Tennessee, by continuous water communication through Cincinnati and Cleveland, or from South Carolina by Quebec or New York; and it could be laid down on any part of the St. Lawrence as cheap as at the mills in New England. The coarser manufactures of this article we might profitably engage in,

for in these but a small proportion of labor enters into the cost, the water power and machinery doing the most of the work. In this description of goods the Americans have supplanted the English in India; and British officers serving there, now wear the Yankee drills.

We need not envy the coal of England or Pennsylvania, the chief use of which in manufactures is to produce steam power, because we have a cheaper and more regular power in the countless falls and rapids of our many rivers; and for the manufacture of iron, in the composition of which coal enters so largely, we have seen that with our boundless forests we have a supply of charcoal which is far more valuable for this purpose. The pig-iron manufactured upon the Ohio river, where mineral coal is cheaper than wood, is, for the reasons above mentioned, made from charcoal where it can be obtained.

We have a population in Eastern Canada naturally intelligent and easily controlled, but who are, for one-half of the year, eating almost the bread of idleness:—and we cannot expect to attain the same wealth and prosperity as our neighbours, unless we rise as early, work as hard, and husband our resources as carefully as they do. With an increasing population, who have long since commenced to emigrate, with abundant food, unlimited water power, the noblest river and the finest canals in the world, Canada, commanding the seaboard, must become the commercial factor for an important portion of interior America, and in due time a manufacturing country,—but we trust never one in which the agricultural interest shall be subordinate; where the husbandman, struggling in that vocation to which Providence has called him,—the first and most natural employment of man,—shall be told that his efforts *must be misdirected*. This is “an axiom” as difficult of adoption as the undisputed, but unnoticed, Golden Rule of Christianity; and as irrefutable by a minority, as the arguments we have employed when we took from the Indian

his hunting grounds, and proved (to our own satisfaction,) that he would be a happier man if he forsook his vagabond propensities and tilled the soil.

We have at this stage noticed the manufacturing position of Canada, both because we feel it impossible, in considering the future progress of our country, to separate the three sisters,—Agriculture, Manufactures, and Commerce; and because there is an opinion extant, that the navigation of the St. Lawrence is of less importance to us than the immediate establishment of a home market by the adoption of a stringent protective policy. It will be seen that it is in no spirit of opposition to this home market, that we have taken ground against the *mode* only, by which it is proposed to be obtained. If our geographical position were that of Cuba, (or perhaps even of Nova Scotia,) so that our commerce could be uninterrupted, we would confidently rely upon its accumulations and facilities to produce in due time the requisite manufactures. But since it has pleased Providence to lay an embargo upon the former from December until May—thereby rendering it to a certain extent *chronic*—we foresee a future gradual resort to manufactures, in order to employ the idle months, as well as to support our commerce. The one cannot long flourish without the other—but as we must have Commerce *before* we can have Manufactures—all restrictions upon the infancy of that commerce, by needless and premature legislation should be avoided. * * * * * *



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So long as flour, shipped from the St. Lawrence, enjoyed a preference in the English market of about one dollar per barrel over the same article when shipped from New York, this premium was sufficient to counterbalance the high freights which the exclusion of foreign vessels from the Gulf of St. Lawrence, and the want of better communications and efficient competition on the river, had produced. This protection being withdrawn *before* the repeal of the navigation restrictions, and before the completion of our canals, our Western produce naturally tended toward New York, where prices were better than in Montreal, both on account of the diminished demand, (the effect of the glutted condition of the English markets after the famine of 1847, which made New York a better market,) and because the whole cost of sending a barrel of flour, from Western Canada to Liverpool, has hitherto been less *via* New York, than Montreal. This tendency of our wheat to the United States, in 1848 and 1849, has given rise to various speculations as to the future course of our trade; and it cannot be concealed, that serious misgivings are entertained respecting the value of our St. Lawrence Canals. Political opinions have been subverted by it—and we now appear in the humiliating condition of *petitioners* for reciprocity with the United States.

RECIPROCITY.

The advantages of a free access to the American market need no demonstration, but the readiest mode of obtaining it is a subject of much discussion. That it will become the interest of the United States to yield this privilege, we have no doubt—but that they will be brought to do

so by *argument*, instead of by *action*, is we fear scarcely to be expected.

Canada is in a position to compel the Americans to open their ports to her produce,—and to exact tribute from the trade of the Western States ; and she owes this position wholly to the improvement of the St. Lawrence. Without her canals, she would be compelled to do, what Ohio, Michigan, Wisconsin and other Western States are now doing,—contribute to the support of the Government and improvements of the State of New York ; with this additional disadvantage, that she would at all times have twenty per cent to pay toward the support of the general government of the United States. Our canals, by giving us an outlet to the ocean, will enable our flour to enter the same markets that are sought by the American article,—the export of which establishes the price for home consumption in that country and has hitherto given the preference to New York over the St. Lawrence. Under our colonial system, we were the sport of English seasons, and were compelled to take the terms offered in the British market alone. The Americans, on the contrary, sent flour to England only when a paying price was obtained there. In 1845, they exported only 35,000 barrels of flour to England ; 47,000 to Cuba ; 53,000 to Hayti ; 54,000 to the Danish West Indies ; 209,000 to Brazil ; 281,000 to the British West Indies ; and 287,000 to the British North American Colonies. They also exported to the East Indies, China, Gibraltar, Cape of Good Hope, and the Pacific, and to nearly all the South American Provinces, and the Islands in the Caribbean sea.

The annual value of the American exports of bread-stuffs, to other countries than Great Britain, is about \$10,000,000 ; nearly one-third of which is sent, as it were, under our noses, to the British Provinces at the mouth of the St. Lawrence. This latter trade the St. Lawrence Canals must at once transfer to Canada, as far as she is able to sup-

ply it, unless *legislation* forbids. The Nova Scotians are large ship owners,—Halifax most favourably situated for an *entrepot*, and our canals must release a large amount of capital, now locked up in winter, in the sailing marine of the lakes. It is not probable, therefore, that the Americans can long continue to exact twenty per cent discount upon the agricultural produce of Canada. If we do not carry on a direct trade ourselves with the Southern countries we have mentioned, the Blue-noses will do it for us, and—as a necessary consequence—they will supply us with the groceries and West India produce we now receive through the States. Where we sell there will we buy. As far as we require English goods we will export timber and flour to pay for them, and as much more as we can sell there; and the Americans will soon see that to retain the portion of our trade which they now possess, they must give us facilities for *selling* as well as for buying in their markets.

A war of tariffs or trade regulations we cannot now afford—and a confession of weakness is not likely to further our object. We therefore believe that the speedy completion of our canals and perfecting of the river navigation, with a liberal commercial policy in at least the infancy of our trade, will be the readiest method of *obtaining* reciprocity, and of rendering us *independent* of it. The privilege of exporting through the United States, in bond, has given rise to unfavourable speculations with regard to the value of our canals;—but it should be remembered, that this privilege was not granted *until we had commenced* the improvement of the St. Lawrence; and never would have been conceded but for the purpose of weakening our efforts toward commercial self-emancipation.

Whether we obtain reciprocity or not, and whatever be our future commercial position with regard to the United States, our policy is the same, viz., to render ourselves speedily and permanently independent of all other routes, so long as we have one (under the control of our own legis-

lation) which admits of being used. If the withholding of this concession on the part of the United States, for two or three years longer, should have the effect of arousing us to a proper sense of our position,—whatever pecuniary loss we might in the interval undergo would be a most valuable investment. If however we had the *entré* of the American markets to-morrow, the attendant advantages would be but imperfectly enjoyed without our St. Lawrence canals. If, as in 1847, a good demand existed on the seaboard, we would be the victims of an expensive and limited means of export, and nearly all the profit of that demand *would go to the forwarders and the State of New York*. In that year the cost of transport from Buffalo to Albany rose to two dollars per barrel, owing to the want of capacity in the Erie Canal.



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